

DOUGLAS SCHOOL DISTRICT 51-1
MEADE AND PENNINGTON COUNTIES, SOUTH DAKOTA

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2009

DOUGLAS SCHOOL DISTRICT 51-1

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INDEPENDENT AUDITOR'S REPORT

School Board
Douglas School District 51-1
Meade and Pennington Counties, South Dakota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of **DOUGLAS SCHOOL DISTRICT 51-1** (the District), Meade and Pennington Counties, South Dakota, as of and for the fiscal year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the District as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 11, 2010, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 11, and the required supplementary budgetary information and supplementary schedules on pages 39 through 45, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Douglas School District 51-1
Page Two

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Expenditures of Federal Awards as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Ketel Thorstenson, LLP". The signature is fluid and cursive, with the letters "K", "T", and "P" being particularly prominent.

KETEL THORSTENSON, LLP
Certified Public Accountants

March 11, 2010

DOUGLAS SCHOOL DISTRICT 51-1

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2009

This section of Douglas School District 51-1's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended on June 30, 2009. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

The District's net assets from governmental and business-type activities decreased approximately \$1,400,000. The total cost of the District's programs increased approximately \$875,000.

The General Fund reported a surplus of approximately \$350,000 due to a large transfer of Impact Aid funds. The Capital Outlay Fund reported a deficit of approximately \$285,000 primarily due to several large purchases and the use of some previously restricted funds. Finally, the Impact Aid Fund reported a deficit of approximately \$1,600,000 due to large transfers of Impact Aid to other funds and an ongoing federal audit where funds were held to be paid in a coming year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—management's discussion and analysis (which is this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

The first two statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the District government, reporting the District's operations in more detail than the government-wide statements.

The governmental funds statements tell how general government services were financed in the short-term, as well as what remains for future spending.

Proprietary fund statements offer short-term and long-term financial information about the activities that the District operates like businesses. The District's only proprietary funds are the Food Service Fund and Internal Service Funds.

Fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong. Most of these are school clubs or clearing accounts.

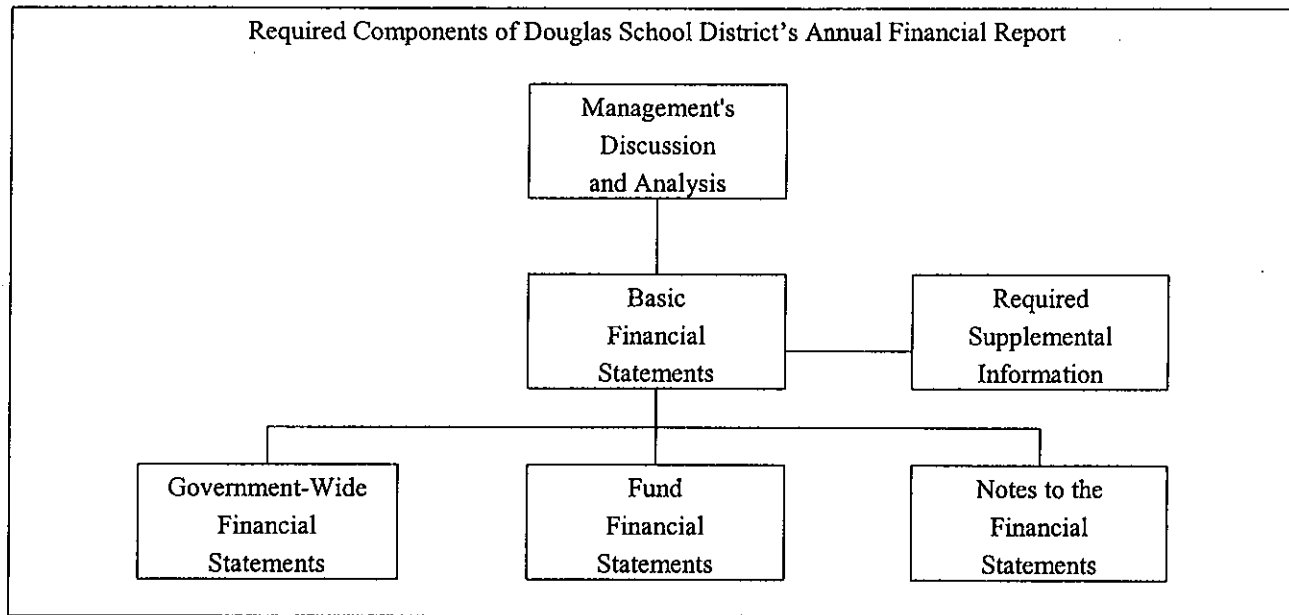
The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and relate to one another.

DOUGLAS SCHOOL DISTRICT 51-1

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

FIGURE A-1



Government-Wide Financial Statements:

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net assets—the difference between the District's assets and liabilities—is one way to measure the District's financial health or position.

- Increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base, changes in the state school aid funding formula from the State of South Dakota, and changes in accounting laws for funds such as Impact Aid.

The government-wide financial statements of the District are reported in two categories:

- **Governmental Activities** – This category includes the District's basic instructional services, such as elementary and high school educational programs, support services (guidance counselor, executive administration, board of education, fiscal services, etc.), extracurricular activities, (sports, music, etc.) and capital equipment purchases or the construction of buildings. Property taxes, state grants, federal grants, and interest earnings finance most of these activities.
- **Business-Type Activities** – The District charges a fee to students to help cover the costs of providing hot lunch services to all students. The Food Service Fund is the only business-type activity of the District.

DOUGLAS SCHOOL DISTRICT 51-1

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements:

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- State Law requires some of the funds (such as the Capital Outlay and Special Education Funds).
- The District Board of Education establishes other funds to control and manage money for particular purposes (like the Health Insurance Internal Service Fund).

The District has three types of funds:

- **Governmental Funds** – Most of the District's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets can readily be converted into cash flow in and out and (2) the balances remaining at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.
- **Proprietary Funds** – Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The Food Service and Internal Service Funds are the only Proprietary Funds the District maintains.
- **Fiduciary Funds** – The District is the trustee, or fiduciary, for various external and internal parties. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Assets. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

DOUGLAS SCHOOL DISTRICT 51-1

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009

OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

FIGURE A-2

	Government-Wide	Fund Statements		
	Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire School government (except fiduciary funds).	The activities of the School that are not proprietary or fiduciary, such as elementary and high school education programs.	Activities the School operates similar to a private business- food service and internal service.	Instances in which the School is the trustee or agent for someone else's resources.
Required Financial Statements	Statement of Net Assets Statement of Activities	Balance Sheet Statement of Revenues, Expenditures and Changes in Fund Balances	Balance Sheet Statement of Revenues, Expenses and Changes in Net Assets Statement of Cash Flows	Statement of Fiduciary Net Assets Statement of Changes in Fiduciary Net Assets
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of Asset/ Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the District's funds do not currently contain capital assets although they can
Type of Inflow/ Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

DOUGLAS SCHOOL DISTRICT 51-1

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

The District's combined net assets increased as shown on Table A-1:

TABLE A-1

Statement of Net Assets						
	Governmental Activities		Business-Type Activities		Total	
	2008	2009	2008	2009	2008	2009
Current and Other Assets	\$ 25,080,140	\$ 23,393,266	\$ 313,881	\$ 320,428	\$ 25,394,021	\$ 23,713,694
Capital Assets	22,773,176	23,256,454	33,542	29,787	22,806,718	23,286,241
Total Assets	\$ 47,853,316	\$ 46,649,720	\$ 347,423	\$ 350,215	\$ 48,200,739	\$ 46,999,935
Long-Term Debt Outstanding	\$ 1,000,165	\$ 1,053,024	\$ -	\$ -	\$ 1,000,165	\$ 1,053,024
Other Liabilities	4,183,583	4,343,572	17	164	4,183,600	4,343,736
Total Liabilities	5,183,748	5,396,596	17	164	5,183,765	5,396,760
Net Assets:						
Invested in Capital Assets	22,773,176	23,256,454	33,542	29,787	22,806,718	23,286,241
Restricted	2,289,115	1,685,930	313,864	320,264	2,602,979	2,006,194
Unrestricted	17,607,277	16,310,740	-	-	17,607,277	16,310,740
Total Net Assets	\$ 42,669,568	\$ 41,253,124	\$ 347,406	\$ 350,051	\$ 43,016,974	\$ 41,603,175
Beginning Net Assets	\$ 41,860,490	\$ 42,669,568	\$ 356,028	\$ 347,406	\$ 42,216,518	\$ 43,016,974
Change in Net Assets	809,078	(1,416,444)	(8,622)	2,645	800,456	(1,413,799)
Percentage of Change in Net Assets	1.93%	-3.32%	-2.42%	0.76%	1.90%	-3.29%

Table A-1 illustrates a decrease in overall net assets of 3.32 percent for governmental activities. Business-type activities increased 0.76 percent from 2008 to 2009. The activities combined accounted for a total decrease of 3.29 percent.

The Statement of Net Assets reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the District, consisting of compensated absences payable, have been reported in this manner on the Statement of Net Assets. The difference between the District's assets and liabilities is its net assets.

Changes in Net Assets

The District's revenues totaled \$22,485,742. Approximately 24 percent of the District's revenue comes from Federal Sources, 39 percent from State Sources, and about 16 percent comes from taxes. (See Figure A-3.)

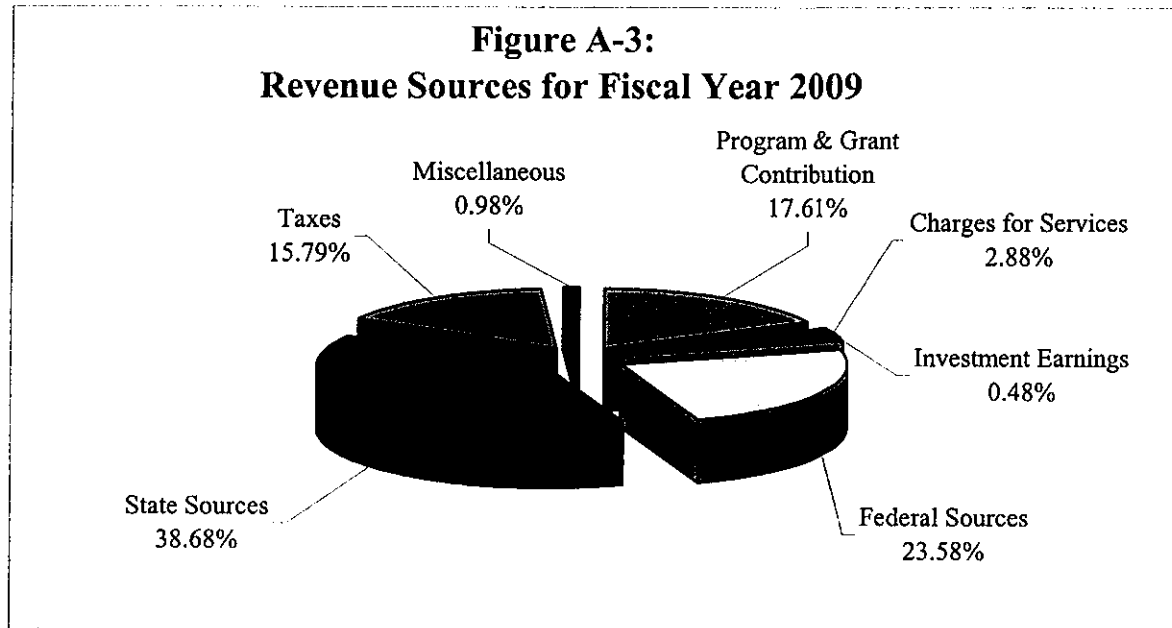
DOUGLAS SCHOOL DISTRICT 51-1

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

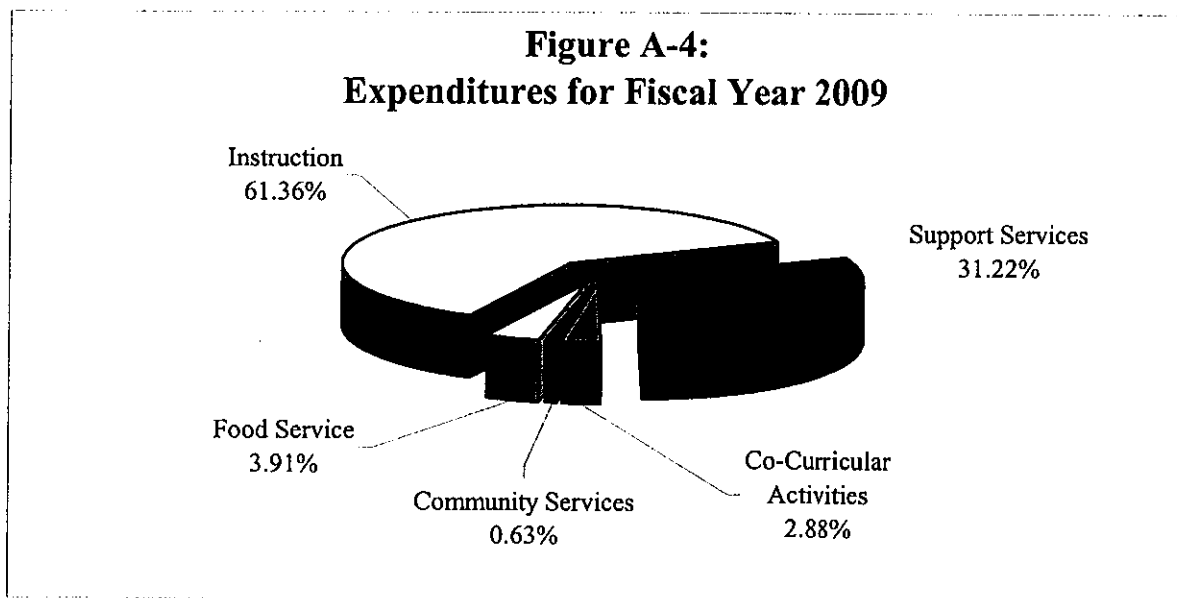
Changes in Net Assets (Continued)

FIGURE A-3



The District's expenses cover a wide range of services, but mainly cover instruction and support services. These account for approximately 93 percent of the total budget. (See Figure A-4.)

FIGURE A-4



DOUGLAS SCHOOL DISTRICT 51-1

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Assets (Continued)

Table A-2 and the narrative that follows consider the operations of the governmental and business-type activities.

TABLE A-2

	Changes in Net Assets					
	Governmental Activities		Business-Type Activities		Grand Total	
	2008	2009	2008	2009	2008	2009
Revenues						
Program Revenues:						
Charges for Services	\$ 173,719	\$ 177,505	\$ 466,659	\$ 469,177	\$ 640,378	\$ 646,682
Operating Grants and Contributions	2,322,688	3,211,508	419,143	466,769	2,741,831	3,678,277
Capital Grants and Contributions	12,635	281,280	-	-	12,635	281,280
General Revenues:						
Taxes	3,216,765	3,549,726	-	-	3,216,765	3,549,726
Revenue from State Sources	8,927,493	8,700,647	-	-	8,927,493	8,700,647
Revenue from Federal Sources	7,529,946	5,302,202	-	-	7,529,946	5,302,202
Other General Revenues	221,264	219,168	70	133	221,334	219,301
Unrestricted Investment Earnings	532,157	107,483	-	-	532,157	107,483
Gain on Sale	3,639	-	-	144	3,639	144
Total Revenues	22,940,306	21,549,519	885,872	936,223	23,826,178	22,485,742
Expenses						
Instruction	14,119,761	14,664,390	-	-	14,119,761	14,664,390
Support Services	7,176,240	7,460,398	-	-	7,176,240	7,460,398
Community Services	140,670	152,157	-	-	140,670	152,157
Co-curricular Activities	694,557	689,018	-	-	694,557	689,018
Food Service	-	-	894,494	933,578	894,494	933,578
Total Expenses	22,131,228	22,965,963	894,494	933,578	23,025,722	23,899,541
Increase (Decrease) in Net Assets	809,078	(1,416,444)	(8,622)	2,645	800,456	(1,413,799)
Ending Net Assets	\$42,669,568	\$ 41,253,124	\$ 347,406	\$ 350,051	\$43,016,974	\$ 41,603,175

Governmental Activities

The revenues for the governmental activities decreased due primarily to an ongoing federal audit on Impact Aid where funds were held to be paid in a coming year. The increase in expenditures is due primarily to the annual increases in salaries and benefits.

DOUGLAS SCHOOL DISTRICT 51-1

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONCLUDED)

Business-Type Activities

Revenues of the District's business-type activities generated enough revenues to cover the costs associated with the Food Service program and to continue to establish a fund balance for the fund. This indicates that the combination of the federal reimbursement for meals and the price charged for meals and ala carte items is sufficient to run the program effectively and efficiently.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The General Fund balance increased by \$355,842 in the current year due to larger transfers from the Impact Aid Fund to the General Fund. The Capital Outlay Fund balance decreased by \$285,978 in the current year due to several large purchases and some previously restricted funds being used on construction projects. The Special Education Fund balance increased by \$58,863 due to a transfer from the Impact Aid Fund to the Special Education Fund. Finally, the Impact Aid Fund balance decreased by \$1,623,656 due to transfers to other funds and to an ongoing federal audit where funds were held to be paid in a coming year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Douglas School District Board of Education approved contingency transfers for unanticipated, yet necessary, expenses to provide items necessary for the education program of the District.

The District's significant budget changes or variances for the year were due to unanticipated grant funding and related expenditures and unanticipated expenditures throughout the year.

CAPITAL ASSET ADMINISTRATION

By the end of 2009, the District had invested over \$23 million (net of depreciation) in a broad range of capital assets, including land, buildings, various machinery and equipment, and construction in progress. This is an increase of approximately \$483,000 from 2008 due to a combination of \$1,642,171 in annual depreciation and \$2,136,653 in purchases or construction. (See Table A-3.)

TABLE A-3

	Capital Assets			
	Governmental Activities		Business-Type Activities	
	2008	2009	2008	2009
Buildings	\$ 19,883,344	\$ 18,920,269	\$ -	\$ -
Improvements Other than Buildings	1,352,579	1,596,250	-	-
Equipment	978,526	1,854,675	33,542	29,787
Land	121,900	121,900	-	-
Construction Work in Progress	436,827	763,360	-	-
Total Capital Assets, Net of Depreciation	\$ 22,773,176	\$ 23,256,454	\$ 33,542	\$ 29,787

DOUGLAS SCHOOL DISTRICT 51-1

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED) FOR THE YEAR ENDED JUNE 30, 2009

CAPITAL ASSET ADMINISTRATION (CONTINUED)

The District's fiscal year 2009 capital projects consisted primarily of a geothermal heat pump project at Douglas Middle School. The District is considering possible funding sources as it considers the possibility of building a new elementary school in the future.

LONG-TERM DEBT

At year-end, the District had \$1,053,024 in obligations for compensated absences. The District's long term debt consists of vacation, voluntary separation, and severance pay (sick leave) liabilities. Additionally, the District had \$54,272 in an obligation for post employment benefits.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's economic position has shown little change in the past few years. The District has experienced an increase in total property valuation of nearly 20 percent over the last year. The increase in property valuation allows the District the ability to increase the amount of revenue generated from property taxes, but the total amount that can be levied is limited by the State of South Dakota.

One of the primary sources of revenue to the District is based on a per student allocation they receive from the State of South Dakota. The state aid formula for the current year ensures that property taxes plus state aid will equal approximately \$4,664 per pupil. The allocation for the next year has been increased to \$4,804 per student. The District has experienced an increase in enrollment from 2008 to 2009 of approximately 90 students.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and other concerned individuals with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Douglas School District Business Office at 400 Patriot Drive, Box Elder, SD 57719.

DOUGLAS SCHOOL DISTRICT 51-1

STATEMENT OF NET ASSETS
JUNE 30, 2009

	Primary Government		
	Governmental	Business-Type	Total
	Activities	Activities	
ASSETS:			
Cash and Cash Equivalents (Note 2)	\$ 20,730,918	\$ 292,724	\$ 21,023,642
Taxes Receivable (Note 4)	1,904,290	-	1,904,290
Due From State Government	436,012	-	436,012
Inventories (Note 3)	30,274	27,704	57,978
Other Receivables and Prepaid Expenses	291,772	-	291,772
Capital Assets (Note 5):			
Land	121,900	-	121,900
Buildings, Net of Depreciation	18,920,269	-	18,920,269
Improvements Other than Buildings, Net of Depreciation	1,596,250	-	1,596,250
Equipment, Net of Depreciation	1,854,675	29,787	1,884,462
Construction Work in Progress	763,360	-	763,360
TOTAL ASSETS	\$ 46,649,720	\$ 350,215	\$ 46,999,935
LIABILITIES:			
Other Current Liabilities	\$ 2,580,543	\$ 164	\$ 2,580,707
Deferred Revenue	1,763,029	-	1,763,029
Personnel Liabilities (Note 6):			
Due Within One Year	183,353	-	183,353
Due in More than One Year	869,671	-	869,671
TOTAL LIABILITIES	5,396,596	164	5,396,760
NET ASSETS:			
Invested in Capital Assets	23,256,454	29,787	23,286,241
Restricted for:			
Capital Outlay	1,083,511	-	1,083,511
Special Education	273,245	-	273,245
Health Self-Insurance	329,174	-	329,174
Food Service	-	320,264	320,264
Unrestricted	16,310,740	-	16,310,740
TOTAL NET ASSETS	41,253,124	350,051	41,603,175
TOTAL LIABILITIES AND NET ASSETS	\$ 46,649,720	\$ 350,215	\$ 46,999,935

The accompanying notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Governmental Activities:							
Instruction	\$ 14,664,390	\$ 58,970	\$ 3,211,508	\$ -	\$ (11,393,912)	\$ -	\$ (11,393,912)
Support Services	7,460,398	-	-	281,280	(7,179,118)	-	(7,179,118)
Community Services	152,157	95,901	-	-	(56,256)	-	(56,256)
Co-Curricular Activities	689,018	22,634	-	-	(666,384)	-	(666,384)
Total Governmental Activities	22,965,963	177,505	3,211,508	281,280	(19,295,670)	-	(19,295,670)
Business-Type Activities:							
Food Service	933,578	469,177	466,769	-	-	2,368	2,368
Total Primary Government	\$ 23,899,541	\$ 646,682	\$ 3,678,277	\$ 281,280	\$ (19,295,670)	\$ 2,368	\$ (19,293,302)
General Revenues							
Taxes:							
Property Taxes					\$ 3,448,322	\$ -	\$ 3,448,322
Gross Receipts Taxes					101,404	-	101,404
Revenue from State Sources:							
State Aid					8,700,647	-	8,700,647
Revenue from Federal Sources					5,302,202	-	5,302,202
Unrestricted Investment Earnings					107,483	-	107,483
Other General Revenues					219,168	133	219,301
Gain on Sale of Equipment					-	144	144
Total General Revenues					17,879,226	277	17,879,503
Change in Net Assets					(1,416,444)	2,645	(1,413,799)
Net Assets - Beginning					42,669,568	347,406	43,016,974
Net Assets - Ending					\$ 41,253,124	\$ 350,051	\$ 41,603,175

The accompanying notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2009

	General Fund	Capital Outlay Fund	Special Education Fund	Impact Aid Fund	Total Governmental Funds
ASSETS:					
101 Cash and Cash Equivalents (Note 2)	\$ 4,412,281	\$ 878,031	\$ 206,714	\$ 14,740,587	\$ 20,237,613
110 Taxes Receivable--Current (Note 4)	1,021,895	502,224	244,421	-	1,768,540
112 Taxes Receivable--Delinquent (Note 4)	88,454	31,815	15,481	-	135,750
120 Accounts Receivable	4,396	183	-	-	4,579
135 Accrued Interest	2	-	-	41	43
140 Due from State/Federal Government	144,390	239,902	51,720	-	436,012
170 Inventory of Supplies (Note 3)	30,274	-	-	-	30,274
192 Prepaid Assets	271,805	-	-	-	271,805
TOTAL ASSETS	\$ 5,973,497	\$ 1,652,155	\$ 518,336	\$ 14,740,628	\$ 22,884,616
LIABILITIES AND FUND BALANCES:					
Liabilities:					
402 Accounts Payable	\$ 9,912	\$ 65,698	\$ 354	\$ -	\$ 75,964
404 Contracts Payable	1,953,303	-	-	-	1,953,303
450 Payroll Deductions and Withholdings and Employer Matching Payable	472,133	-	-	-	472,133
474 Deferred Revenue	1,103,800	534,761	260,218	-	1,898,779
Total Liabilities	3,539,148	600,459	260,572	-	4,400,179
Fund Balances:					
701.2 Reserved for Inventory	30,274	-	-	-	30,274
701.9 Reserved for Prepaid Assets	271,805	-	-	-	271,805
704 Unreserved/Undesignated					
Fund Balances	2,132,270	1,051,696	257,764	14,740,628	18,182,358
Total Fund Balances	2,434,349	1,051,696	257,764	14,740,628	18,484,437
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,973,497	\$ 1,652,155	\$ 518,336	\$ 14,740,628	\$ 22,884,616

The accompanying notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
JUNE 30, 2009**

Total Fund Balances - Governmental Funds \$ 18,484,437

Amounts reported for governmental activities in the Statement
of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and
therefore are not reported in the funds. 23,256,454

Long-term liabilities, including vacation payable, severance payable, and voluntary
separation payable, are not due in the current period and therefore are not reported
in the funds. (1,053,024)

Delinquent taxes receivable are not available to pay for current period
expenditures and therefore are deferred in the funds. 135,750

Internal service funds are used by management to charge the costs of activities,
such as insurance, to individual funds. The assets and liabilities of internal service
funds are included in the governmental activities in the Statement of Net Assets. 429,507

Net Assets - Governmental Funds	\$ 41,253,124
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The accompanying notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2009

	General Fund	Capital Outlay Fund	Special Education Fund	Impact Aid Fund	Total Governmental Funds
Revenues:					
<i>1000 Revenue from Local Sources (Note 4):</i>					
1110 Ad Valorem Taxes	\$ 1,917,984	\$ 940,971	\$ 453,420	\$ -	\$ 3,312,375
1120 Prior Years' Ad Valorem Taxes	48,145	19,407	9,233	-	76,785
1140 Gross Receipts Taxes	101,404	-	-	-	101,404
1190 Penalties and Interest on Taxes	10,028	3,991	1,928	-	15,947
1310 Regular Day School Tuition	56,393	-	-	-	56,393
1500 Earnings on Investments and Deposits	6,131	847	370	100,135	107,483
<i>1700 Cocurricular Activities:</i>					
1710 Admissions	16,826	-	-	-	16,826
1740 Rentals	1,348	-	-	-	1,348
1790 Other Pupil Activity Income	4,460	-	-	-	4,460
<i>1900 Other Revenue from Local Sources:</i>					
1910 Rentals	829	-	-	-	829
1950 Refund of Prior Year's Expenditures	538	-	-	-	538
1980 Day Care Services	94,534	-	-	-	94,534
1990 Other	7,466	-	-	-	7,466
2110 County Apportionment	193,922	-	-	-	193,922
<i>3000 Revenue from State Sources:</i>					
3110 Unrestricted Grants-in-Aid	8,700,647	-	-	-	8,700,647
3120 Restricted Grants-in-Aid	-	-	1,325,233	-	1,325,233
3320 Tuition - Regular	2,577	-	-	-	2,577
3900 Other State Revenue	15,350	2,430	-	-	17,780
<i>4000 Revenue from Federal Sources:</i>					
4110 Unrestricted Grants-in-Aid Received					
Directly from Federal Government	-	-	-	5,051,719	5,051,719
4120 Unrestricted Grants-in-Aid Received from					
Federal Government Through State	2,979	-	-	-	2,979
4140 Restricted Grants-in-Aid Received					
Directly from Federal Government	17,051	281,820	128,651	-	427,522
4150-4199 Restricted Grants-in-Aid Received					
from Federal Government Through State	1,222,995	-	517,038	-	1,740,033
4900 Other Federal Revenue	7,602	239,902	-	-	247,504
Total Revenues	12,429,209	1,489,368	2,435,873	5,151,854	21,506,304
Expenditures:					
<i>1100 Instruction - Regular Programs:</i>					
1110 Elementary	4,449,760	182,783	-	-	4,632,543
1120 Middle/Junior High	2,565,746	65,698	-	-	2,631,444
1130 High School	2,638,511	192,711	-	-	2,831,222
1140 Preschool Services	142,953	-	-	-	142,953
1190 Other Regular Programs	17,017	-	-	-	17,017
<i>1200 Instruction - Special Programs:</i>					
1210 Programs for Gifted and Talented	53,192	-	-	-	53,192
1220 Programs for Special Education	-	7,737	2,056,367	-	2,064,104
1250 Culturally Different	45,228	-	-	-	45,228
1270 Educationally Deprived	361,764	-	-	-	361,764
1290 Other Special Programs	19,501	-	-	-	19,501
<i>2100 Support Services - Pupils:</i>					
2110 Attendance and Social Work	49,633	-	48,660	-	98,293
2120 Guidance	449,089	-	56,500	-	505,589
2130 Health	5,109	-	154,445	-	159,554
2140 Psychological	-	-	65,000	-	65,000
2150 Speech Pathology	-	-	272,323	-	272,323
2170 Student Therapy Services	-	-	91,375	-	91,375

DOUGLAS SCHOOL DISTRICT 51-1

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND

BALANCES (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2009

	General Fund	Capital Outlay Fund	Special Education Fund	Impact Aid Fund	Total Governmental Funds
<i>2200 Support Services - Instructional Staff:</i>					
2210 Improvement of Instruction	265,199	-	-	-	265,199
2220 Educational Media	794,324	68,142	-	-	862,466
<i>2300 Support Services - General:</i>					
2310 Board of Education	82,848	-	-	-	82,848
2320 Executive Administration	302,519	-	-	-	302,519
<i>2400 Support Services - School:</i>					
2410 Office of the Principal	815,473	-	-	-	815,473
<i>2500 Support Services - Business:</i>					
2520 Fiscal Services	251,604	-	-	-	251,604
2530 Facilities Acquisition and Construction	-	68,976	-	-	68,976
2540 Operation and Maintenance of Plant	2,073,778	3,568	-	-	2,077,346
2550 Pupil Transportation	568,406	14,653	-	-	583,059
2570 Internal Services	54,872	-	-	-	54,872
<i>2600 Support Services - Central:</i>					
2630 Information	14,419	-	-	-	14,419
2640 Staff	75,910	-	-	-	75,910
2660 Data Processing	6,780	-	-	-	6,780
<i>2700 Support Services - Special Education:</i>					
2710 Administrative Costs	-	-	230,051	-	230,051
2730 Transportation Costs	-	-	212,720	-	212,720
2750 Other Special Education Costs	-	-	74,200	-	74,200
<i>3000 Community Services:</i>					
3400 Public Library	5,288	795	-	-	6,083
3500 Custody and Care of Children	141,774	-	-	-	141,774
3900 Other	4,300	-	-	-	4,300
4500 Early Retirement	122,678	-	-	-	122,678
<i>6000 Co-curricular Activities:</i>					
6100 Male Activities	88,317	-	-	-	88,317
6200 Female Activities	54,664	-	-	-	54,664
6900 Combined Activities	436,157	48,119	-	-	484,276
7500 Capital Outlay	-	2,136,653	-	-	2,136,653
Total Expenditures	16,956,813	2,789,835	3,261,641	-	23,008,289
Excess of Revenue Over (Under) Expenditures	(4,527,604)	(1,300,467)	(825,768)	5,151,854	(1,501,985)
Other Financing Sources (Uses):					
5110 Transfers In (Note 7)	4,883,446	1,015,000	885,000	-	6,783,446
5130 Sale of Surplus Property	-	1,019	-	-	1,019
8110 Transfers Out (Note 7)	-	(1,530)	(369)	(6,775,510)	(6,777,409)
Total Other Financing Sources (Uses)	4,883,446	1,014,489	884,631	(6,775,510)	7,056
Net Change in Fund Balances	355,842	(285,978)	58,863	(1,623,656)	(1,494,929)
Fund Balance -- June 30, 2008	2,078,507	1,337,674	198,901	16,364,284	19,979,366
Fund Balance -- June 30, 2009	\$ 2,434,349	\$ 1,051,696	\$ 257,764	\$ 14,740,628	\$ 18,484,437

The accompanying notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

**RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR YEAR ENDED JUNE 30, 2009**

Net Change in Fund Balances - Total Governmental Funds \$ (1,494,929)

Amounts reported for governmental activities in the Statement of Activities are different
because:

Governmental funds report capital outlays as expenditures; however, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period. 494,482

In the Statement of Activities, gains and losses on the disposition of capital assets is reported, whereas in the governmental funds, the proceeds from sale of fixed assets is reflected, regardless of whether a gain or loss is realized. (11,204)

The fund financial statement property tax accruals differ from the government wide statement property tax accruals as the fund financial statements require the amounts to be "available." 43,215

Governmental funds recognize expenditures for amounts of compensated absences and voluntary separation actually paid to employees with current financial resources. Amounts of compensated absences earned by employees are not recognized in the funds. In the Statement of Activities, expenses for these benefits are recognized when employees earn leave or elect to retire early. 1,413

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net expenses of the internal service funds is reported with governmental activities. (395,149)

Government-wide financial statements require other post employment benefits to be recorded on the accrual basis, whereas the fund financial statements required the modified accrual basis. (54,272)

Change in Net Assets of Governmental Activities \$ (1,416,444)

DOUGLAS SCHOOL DISTRICT 51-1

PROPRIETARY FUND BALANCE SHEET
JUNE 30, 2009

	<u>Enterprise Fund</u>	<u>Internal Service Funds</u>
ASSETS:		
<i>Current Assets:</i>		
101 Cash and Cash Equivalents (Note 2)	\$ 292,724	\$ 493,305
120 Accounts Receivable	-	15,345
170 Inventory of Supplies (Note 3)	18,920	-
172 Inventory of Donated Food (Note 3)	8,784	-
Total Current Assets	320,428	508,650
<i>Noncurrent Assets (Note 5):</i>		
204 Equipment	130,056	-
Less: Accumulated Depreciation	(100,269)	-
Total Noncurrent Assets	29,787	-
TOTAL ASSETS	\$ 350,215	\$ 508,650
LIABILITIES:		
<i>Current Liabilities:</i>		
402 Accounts Payable	\$ 164	\$ -
409 Incurred But Not Reported Claims (Note 10)	-	79,143
Total Current Liabilities	164	79,143
NET ASSETS:		
706 Invested in Capital Assets	29,787	-
708 Unrestricted Net Assets (Note 10)	320,264	429,507
Total Net Assets	350,051	429,507
TOTAL LIABILITIES AND NET ASSETS	\$ 350,215	\$ 508,650

The accompanying notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

PROPRIETARY FUND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009

	Enterprise Fund	Internal Service Funds
Operating Revenue:		
<i>Sales:</i>		
1610 To Pupils	\$ 391,605	\$ -
1620 To Adults	10,516	-
1630 A la Carte	67,056	-
1970 Self-Insurance Premiums	-	1,380,792
Total Operating Revenue	469,177	1,380,792
Operating Expenses:		
<i>2560 Food Service:</i>		
100 Salaries	352,066	-
200 Employee Benefits	92,096	-
300 Purchased Services	9,374	-
400 Supplies	34,033	-
461 Cost of Sales - Purchased Food	414,541	-
462 Cost of Sales - Donated Food	27,713	-
910 Depreciation - Local Funds	3,755	-
4620 Self Insurance Costs (Note 10)	-	1,578,796
4900 Other Premiums	-	195,695
Total Operating Expenses	933,578	1,774,491
Operating Loss	(464,401)	(393,699)
Nonoperating Revenue:		
<i>Local Sources:</i>		
1510 Investment Earnings	-	4,587
1990 Other	133	-
<i>State Sources:</i>		
3810 Cash Reimbursements	4,499	-
<i>Federal Sources:</i>		
4810 Cash Reimbursements	432,177	-
4820 Donated Food	30,093	-
Total Nonoperating Revenue	466,902	4,587
Other Financing Sources (Uses):		
5130 Sale of Surplus Property	144	-
8110 Transfers Out (Note 7)	-	(6,037)
Total Other Financing Sources (Uses):	144	(6,037)
Change in Net Assets	2,645	(395,149)
Net Assets -- Beginning	347,406	824,656
Net Assets -- Ending	\$ 350,051	\$ 429,507

The accompanying notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

PROPRIETARY FUND STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009

	Enterprise Fund	Internal Service Funds
Cash Flows from Operating Activities:		
Receipts from Customers	\$ 469,177	\$ -
Receipts from Interfund Services Provided	-	1,376,786
Payments to Suppliers	(455,942)	-
Payments to Employees	(444,162)	-
Claims Paid	-	(1,658,148)
Other Disbursements	-	(195,695)
Net Cash Used in Operating Activities	(430,927)	(477,057)
Cash Flows from Noncapital Financing Activities:		
Operating Subsidies	436,809	-
Transfer to General Fund	-	(6,037)
Net Cash Provided by (Used in) Noncapital Financing Activities	436,809	(6,037)
Cash Flows from Capital and Related Financing Activities:		
Sale of Surplus Property	144	-
Cash Flows from Investing Activities:		
Cash Received for Interest	-	6,037
Net Increase (Decrease) in Cash and Cash Equivalents	6,026	(477,057)
Cash and Cash Equivalents at Beginning of Year	286,698	970,362
Cash and Cash Equivalents at End of Year	\$ 292,724	\$ 493,305
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:		
Operating Loss	\$ (464,401)	\$ (393,699)
<i>Adjustments to Reconcile Operating Loss to Net Cash Used In Operating Activities:</i>		
Depreciation Expense	3,755	-
Value of Donated Commodities Used	27,713	-
<i>Change in Assets and Liabilities:</i>		
Inventories	1,859	-
Accounts Receivable	-	(4,006)
Accounts and Other Payables	147	(79,352)
Net Cash Used in Operating Activities	\$ (430,927)	\$ (477,057)
Noncash Investing, Capital and Financing Activities:		
Value of Commodities Received	\$ 30,093	\$ -

The accompanying notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

**STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2009**

	Private-Purpose Trust Fund	Agency Funds
<u>ASSETS:</u>		
Cash and Cash Equivalents (Note 2)	\$ 500	\$ 85,517
<u>LIABILITIES:</u>		
Amounts Held for Others	-	\$ 85,517
<u>NET ASSETS:</u>		
Held in Trust for Scholarships	\$ 500	

The accompanying notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>Private-Purpose Trust Fund</u>
ADDITIONS	
Contributions and Donations	\$ 400
DEDUCTIONS	
Scholarships Awarded	500
Change in Net Assets	(100)
Net Assets -- Beginning	600
Net Assets -- Ending	<u>\$ 500</u>

The accompanying notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2009

(1) Summary of Significant Accounting Policies

a. Financial Reporting Entity

The Funds included in this report are controlled by or dependent upon the Douglas School Board of Education.

The Douglas School District (the District) participates in a cooperative service unit with several other school districts. See Note 9 entitled "Joint Ventures" for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the District.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governments.

The reporting entity of Douglas School District No. 51-1, consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

b. Basis of Presentation

Government-Wide Financial Statements:

The Statement of Net Assets and the Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. Eliminations have been made to prevent the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Net Assets reports all financial and capital resources, in a net assets form (assets minus liabilities equal net assets). Net assets are displayed in three components, as applicable, invested in capital assets, restricted (distinguishing between major categories of restrictions), and unrestricted.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes and Impact Aid, are presented as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenue, and expenditures or expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories.

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued)

Fund Financial Statements (Continued):

A fund is considered major if it is the primary operating fund of the District or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the District financial reporting entity are described below within their respective fund types:

Governmental Funds:

General Fund -- A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all of the general operational costs of the District, excluding the Capital Outlay Fund and Special Education Fund expenditures. The General Fund is always a major fund.

Special Revenue Fund Types -- Special Revenue Funds are used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Special Revenue Funds of the District include the following:

Capital Outlay Fund -- A fund established by SDCL 13-16-6 to meet expenditures which result in the lease of, acquisition of, or additions to real property, plant or equipment, textbooks and instructional software. This fund is financed by property taxes. This is a major fund.

Special Education Fund -- A fund established by SDCL 13-37-16 to pay the costs for the special education of all children in need of special assistance and prolonged assistance who reside within the District. This fund is financed by grants and property taxes. This is a major fund.

Impact Aid Fund -- A fund established by SDCL 13-16-30 and 13-16-31 to account for the receipt of federal funds under the provisions of P.L. 103-382, title VII for basic support. No expenditures may be directly charged to this fund. This is a major fund.

Proprietary Funds:

Enterprise Fund Types -- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The only Enterprise Fund is the Food Service Fund.

Food Service Fund - A fund used to record the financial transactions related to the K-12 food service operations. This fund is financed by user charges and grants. This is a major fund.

Internal Service Fund Types -- Internal Service Funds are used to report activities that provide goods or services to other funds, departments, or agencies of the District, or to other governments, on a cost-reimbursement basis. The Health Insurance, Dental Insurance, and Unemployment Insurance Funds are internal service funds maintained by the District. Internal service funds are never considered to be major funds.

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Concluded)

Fiduciary Funds:

Fiduciary Funds are never considered to be major funds.

Private-Purpose Trust Fund Types – Private-Purpose Trust Funds are used to account for all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments. The District maintains one private-purpose trust fund, which is a scholarship fund that was established by a donation made to the District for payment of scholarships to District students.

Agency Fund Types – Agency Funds are used to account for resources held by the District in a purely custodial capacity (assets equal liabilities). Since Agency Funds are custodial in nature, they do not involve the measurement of results of operations. The District maintains a variety of Agency Funds. Agency Funds are established to account for the monies earned by student organizations for various expenditures. The other Agency Funds account for the monies contributed by employees for health and dependent care expenses.

c. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe how transactions are recorded within the various financial statements. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus:

Government-Wide Financial Statements:

In the Government-Wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the current financial resources measurement focus and the modified accrual basis of accounting are applied to governmental funds, while the economic resources measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary funds.

Basis of Accounting:

Government-Wide Financial Statements:

In the Government-Wide Statement of Net Assets and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. Available means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the District, the length of that cycle is 60 days.

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

(1) Summary of Significant Accounting Policies (Continued)

c. Measurement Focus and Basis of Accounting (Continued)

Basis of Accounting (Continued):

Fund Financial Statements (Continued):

Under the modified accrual basis of accounting, receivables may be measurable, but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met. For the District, these consist primarily of property taxes.

Expenditures generally are recognized when the related fund liability is incurred.

All proprietary funds and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

The business-type activities and enterprise funds do not apply any FASB Statements and Interpretations issued after November 30, 1989.

d. Interfund Eliminations and Reclassifications

Government-Wide Financial Statements:

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.
2. In order to minimize the doubling-up effect on internal service fund activity, certain "centralized expenses," including an administrative overhead component, are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department, or fund. When expenses are charged in this manner, expense reductions occur in the General Fund, so that expenses are reported only in the function to which they relate.

e. Capital Assets

Capital assets include land, buildings, machinery and equipment, improvements, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

The accounting treatment of capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Financial Statements:

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

(1) Summary of Significant Accounting Policies (Continued)

e. Capital Assets (Continued)

Government-Wide Financial Statements (Continued):

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Government-Wide Statement of Activities, with net capital assets reflected in the Statement of Net Assets. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts) for land, buildings, improvements, and equipment are all set at \$5,000. The depreciation method used for buildings, improvements, and equipment is straight-line. Land is an inexhaustible capital asset and is not depreciated.

The estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

Buildings	10-60 years
Improvements Other than Buildings	10-20 years
Equipment	10-20 years

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

f. Long-Term Liabilities

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist of vacation payable, voluntary separation (early retirement benefits) payable, and sick leave/severance payable.

Annual vacation is earned by the employees at the rate of 10 to 20 days per year based on an employee's number of years of service. Upon termination, employees are entitled to receive compensation for their accrued vacation at their current rate of pay. The amount of this compensation shall not exceed vacation time earned during a two-year period.

Certified employees may participate in a voluntary separation program. Upon meeting certain criteria, cash benefits equal to their current salary times five percent times their years of service (maximum of 20 years) may be paid in one payment or multiple payments to the eligible employees upon termination. The District's total payments for voluntary separation may not exceed two percent of the budget for certified instructional salaries in any given year. A long-term liability is recognized for the total benefits calculated to be payable in future periods. As of June 30, 2009, there are two employees that have applied and been approved for separation. No discount rate was used to estimate the effect of making the cash payments over a two year period, as it would be insignificant.

Sick leave/severance pay is earned by the employees at the rate of 6 to 15 days per year based on annual hours of work. Upon termination, administrators, directors, classified and certified employees attaining age 45 with at least ten years of service are entitled to receive compensation for their respective accrued sick leave balance at one-half of their accumulated balance at a rate equal to an average of the employee's daily rate of pay over the five-year period immediately preceding termination, in the form of a severance bonus.

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

(1) Summary of Significant Accounting Policies (Continued)

f. Long-Term Liabilities (Continued)

Funding for annual leave, voluntary separation, and sick leave is expended in the General Fund and the Special Education fund.

Long-term liabilities for governmental funds are not reported as liabilities in the fund financial statements. The payment of these long-term liabilities is reported as expenditures. The accounting for the proprietary fund is on the accrual basis, the same as in the government-wide statements.

g. Program Revenues

In the Government-Wide Statement of Activities, reported program revenues derive directly from the program itself or from parties other than the District's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions -- These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions -- These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

h. Proprietary Funds Revenue and Expense Classifications

In the Proprietary Fund Statement of Revenues, Expenses and Changes in Net Assets, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

i. Cash and Cash Equivalents

The District pools its cash resources for depositing and investing purposes. The District has access to its cash resources on demand. Accordingly, all reported deposit and investment balances are considered to be cash and cash equivalents, including for the purpose of the Statement of Cash Flows.

j. Equity Classifications

Government-Wide Financial Statements:

Equity is classified as net assets and is displayed in three components:

1. Invested in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation.
2. Restricted net assets -- Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets -- All other net assets that do not meet the definition of "restricted" or "invested in capital assets."

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) **JUNE 30, 2009**

(1) Summary of Significant Accounting Policies (Concluded)

j. Equity Classifications (Continued)

Fund Financial Statements:

Governmental fund equity is classified as fund balance and may distinguish between "reserved" and "unreserved" components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for the Agency Funds, which have no fund equity) is reported as net assets held in trust for other purposes.

k. Application of Net Assets

It is the District's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

(2) Deposits and Investments

The District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits - The District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1, and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating, which may not be less than "AA," or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments - In general, SDCL 4-5-6 permits school district funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above; or in shares of an open-end, no load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

As of June 30, 2009, the District's cash and investments consisted only of checking, savings, and money market accounts. All of these accounts are insured or collateralized in the District's name. State law limits eligible investments for the District; therefore, the District has no investment policy that would further limit its investment choices or limit maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Additionally, as of June 30, 2009, none of the District's deposits were exposed to custodial credit risk nor were more than five percent of the District's investments invested in one issuer.

Assignment of Investment Income - State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The District's policy is to credit all income from deposits and investments to the General Fund. USGAAP, on the other hand, requires income from deposits and investments to be reported in the fund whose assets generated that income. Where the governing board has discretion to credit investment income to a fund other than the fund that provided the resources for investment, a transfer to the designated fund is reported. Accordingly, in the fund financial statements, interfund transfers of investment earnings are reported, while in the government-wide financial statements, they have been eliminated, except for the net amounts transferred between governmental activities and business-type activities. These interund transfers are not violations of the statutory restrictions on interfund transfers.

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

(3) Inventory

Inventory of the business-type activities is valued at the lower of cost or market value. The cost valuation method is first-in, first-out. Donated commodities are valued at estimated market value based on the USDA price list at the date of receipt.

In the governmental activities and fund financial statements, inventory is initially recorded as assets and charged to expense in the various functions of government as they are consumed.

Inventories in the General Fund consist of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve, which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

(4) Property Tax

Property taxes are levied on or before each October 1, attach as an enforceable lien on property, and become due and payable as of the following January 1. They are payable in two installments on or before the following April 30 and October 31. The counties bill and collect the District's taxes and remit them to the District.

District property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Revenue related to current year property taxes receivable, which is not intended to be used to finance the current year's appropriations and therefore is not susceptible to accrual, has been reported as deferred revenue in both the fund financial statements and the government-wide financial statements. Additionally, in the fund financial statements, revenue from property taxes may be limited by any amount not collected during the current fiscal period or within the availability period.

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

(5) Changes in Capital Assets

A summary of changes in capital assets in governmental funds for the year ended June 30, 2009, is as follows:

	Balance July 1, 2008	Additions	Retirements	Balance June 30, 2009
Governmental Activities:				
Capital Assets, not Depreciated:				
Land	\$ 121,900	\$ -	\$ -	\$ 121,900
Construction Work in Progress	436,827	761,742	(435,209)	763,360
	<u>558,727</u>	<u>761,742</u>	<u>(435,209)</u>	<u>885,260</u>
Capital Assets, Depreciated:				
Buildings	33,302,161	96,378	-	33,398,539
Improvements Other Than Buildings	2,624,281	407,944	-	3,032,225
Equipment -- Local Funds	2,358,482	1,305,798	(103,416)	3,560,864
Equipment -- Federal Funds	172,000	-	-	172,000
	<u>38,456,924</u>	<u>1,810,120</u>	<u>(103,416)</u>	<u>40,163,628</u>
Less Accumulated Depreciation for:				
Buildings	13,418,817	1,059,453	-	14,478,270
Improvements Other Than Buildings	1,271,702	164,273	-	1,435,975
Equipment -- Local Funds	1,414,356	401,245	(92,212)	1,723,389
Equipment -- Federal Funds	137,600	17,200	-	154,800
	<u>16,242,475</u>	<u>1,642,171</u>	<u>(92,212)</u>	<u>17,792,434</u>
Governmental Capital Assets, Net	\$ 22,773,176	\$ 929,691	\$ (446,413)	\$ 23,256,454

Construction work in progress at June 30, 2009, includes an irrigation project and a heat pump project. As of June 30, 2009, \$1,618 and \$761,742 has been expended towards these projects, respectively, but there are no contract obligations for either project.

Depreciation expense was charged to functions within governmental activities as follows:

Instruction	\$ 1,290,588
Support Services	289,822
Co-curricular Activities	61,761
Total Depreciation Expense	\$ 1,642,171

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

(5) Changes in Capital Assets (Continued)

Capital asset activity in business-type funds for the fiscal year ended June 30, 2009, is as follows:

	Balance July 1, 2008	Additions	Retirements	Balance June 30, 2009
Business-Type Activities:				
Capital Assets, Depreciated:				
Equipment	\$ 130,056	\$ -	\$ -	\$ 130,056
Less Accumulated Depreciation for:				
Equipment	96,514	3,755	-	100,269
Business-Type Capital Assets, Net	\$ 33,542	\$ (3,755)	\$ -	\$ 29,787

(6) Long-Term Liabilities

A summary of the changes in long-term liabilities for the year ended June 30, 2009, is as follows:

	2008	Benefits Earned	Benefits Paid	Net OPEB Obligation	2009	Due Within One Year
Vacation Liability	\$ 117,813	\$ 82,609	\$ (84,290)	\$ -	\$ 116,132	\$ 99,000
Voluntary Separation Liability	112,352	61,146	(114,878)	-	58,620	34,353
Severance Pay (Sick Leave) Liability	770,000	75,814	(21,814)	-	824,000	50,000
OPEB Additions	-	-	-	86,438	86,438	-
OPEB Reductions	-	-	-	(32,166)	(32,166)	-
General Long-Term Debt	\$ 1,000,165	\$ 219,569	\$ (220,982)	\$ 54,272	\$ 1,053,024	\$ 183,353

The remaining voluntary separation liability is payable as follows for the fiscal years ending June 30:

2010	\$ 34,353
2011	<u>24,267</u>
	<u>\$ 58,620</u>

These long-term liabilities will be paid from the General Fund and the Special Education Fund.

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

(7) Individual Fund Interfund Transactions

During the fiscal year, the following amounts were transferred between funds:

	Transfer In	Transfer Out
General Fund	\$ 4,883,446	\$ -
Capital Outlay Fund	1,015,000	(1,530)
Special Education Fund	885,000	(369)
Impact Aid Fund	-	(6,775,510)
Internal Service Fund	-	(6,037)
Total	\$ 6,783,446	\$ (6,783,446)

Transfers are used to move unrestricted revenues collected in the Impact Aid Fund to other funds to finance various programs in accordance with budgetary authorizations. Transfers are also used to move interest earnings from the fund making the investment to the General Fund.

(8) Retirement Plan

All employees, working more than 20 hours per week during the school year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor's benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SD Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Covered employees (Class A Members) are required by state statute to contribute six percent of their salary to the plan. State statute also requires the employer to contribute an amount equal to the employee's contribution and to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The District's share of contributions to SDRS for the fiscal years ended June 30, 2009, 2008, and 2007 were \$877,736, \$821,435, and \$849,206, respectively, equal to the required contribution each year.

(9) Joint Ventures

The District participates in the Black Hills Special Services Cooperative, a cooperative service unit (the Co-op) formed for the purpose of providing special educational services to the member school districts. During the year ended June 30, 2009, the District paid \$250,662 for services provided by the Co-op. The Co-op's governing board (the Board) is composed of one representative from each member school district, who is a school board member. The Board is responsible for adopting the Co-op's budget and setting service fees at a level adequate to fund the adopted budget.

The District retains no equity in the net assets of the Co-op, but does have a responsibility to fund deficits of the Co-op in proportion to the relative participation described below.

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

(9) Joint Ventures (Continued)

The members of the Co-op and their relative percentage participation are as follows:

Spearfish School District No. 40-2	8.33%
Lead-Deadwood School District No. 40-1	8.33%
Oelrichs School District No. 23-3	8.33%
Meade School District No. 46-1	8.33%
Rapid City Area School District No. 51-4	8.33%
Belle Fourche School District No. 9-1	8.33%
Custer School District No. 16-1	8.33%
Douglas School District No. 51-1	8.33%
Edgemont School District No. 23-1	8.33%
Haakon School District No. 27-1	8.33%
Hill City School District No. 51-2	8.33%
Hot Springs School District No. 23-2	8.33%

Separate financial statements for this joint venture are available from Black Hills Special Services Cooperative, Sturgis, South Dakota. At June 30, 2009, this joint venture had total fund equity of \$2,932,289 (unaudited) and long-term debt of \$920,233 (unaudited).

(10) Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2009, the District managed its risks as follows:

Liability/Property/Workmen's Compensation Insurance:

The District purchases the above insurance coverage from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Unemployment Benefits:

The District has elected to be self-insured and retain all risk for liabilities arising from claims for unemployment benefits.

The District has designated equity in the Unemployment Insurance - Internal Service Fund in the amount of \$100,333 for the payment of future unemployment benefits.

During the year ended June 30, 2009, \$2,365 in claims for unemployment benefits were filed and paid. At June 30, 2009, no claims had been filed and none were outstanding. It is not anticipated that any additional claims for unemployment benefits will be filed in the next fiscal year.

Employee Health Insurance:

The District has self-insurance for health insurance through a third-party. The health insurance plan is accounted for in an Internal Service Fund of the District. As part of the health care coverage, the District purchases re-insurance which pays in excess of \$50,000 per employee and claims in excess of \$1,000,000 in the aggregate. Accounts payable for claims incurred but not paid of \$79,143 is recorded in an Internal Service Fund in the Proprietary Fund Balance Sheet. The accrual is based on payments made subsequent to year end for claims incurred prior to June 30, 2009. The District has net assets in the Health and Dental Insurance Internal Service Funds in the amount of \$232,306 and \$1,874 for the payment of health and dental insurance claims, respectively.

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

(10) Risk Management (Continued)

Employee Health Insurance (Continued):

Changes in the aggregate liabilities of the self insurance funds during fiscal year 2008 were as follows:

	<u>Health Insurance</u>
Benefit Claims Payable at June 30, 2007	\$ 143,746
<i>Claims Incurred:</i>	
Attributable to Insured Events of the Current Year	1,459,438
<i>Claims Paid:</i>	
Attributable to Insured Events of Current and Prior Years	1,444,689
Incurring But Not Reported Claims at June 30, 2008	\$ 158,495

Changes in the aggregate liabilities of the self insurance funds during fiscal year 2009 were as follows:

	<u>Health Insurance</u>
Benefit Claims Payable at June 30, 2008	\$ 158,495
<i>Claims Incurred:</i>	
Attributable to Insured Events of the Current Year	1,578,796
<i>Claims Paid:</i>	
Attributable to Insured Events of Current and Prior Years	1,658,148
Incurring But Not Reported Claims at June 30, 2009	\$ 79,143

(11) Other Post Employment Benefits (OPEB) Plan

The District implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for the fiscal year ended June 30, 2009. This implementation requires the District to report its liability for other postemployment benefits consistent with newly established generally accepted accounting principles (GAAP) and to reflect an actuarially determined liability for the present value of the projected future benefits for retired and active employees in the financial statements.

Plan Description

A continuation of benefits may be purchased upon retirement by employees who are participants in the District's group health plan (the Plan) and who meet the following two requirements: (1) have worked for the District at least 10 years and (2) have been participants in the District's Plan for the last five years when they retire at age 50 or older. Coverage ceases when the retiree attains the age of 65 or becomes eligible for Medicare, except for COBRA coverage if elected. Spouse/Dependent coverage is provided as long as the required contributions are paid. Dependents may continue coverage after the retiree's coverage terminates for a maximum of 18 months or until the dependent is eligible for Medicare, whichever is shorter. The retiree is responsible for 115 percent of the full active premium rates for either single, two-party or family coverage. SDCL 6-1-16 specifically allows any municipality, county or school district to provide health insurance for retiring employees and their dependents.

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2009

(11) Other Post Employment Benefits (OPEB) Plan (Continued)

Plan Description (Continued)

GAAP requires the actuarial amounts to be calculated using age adjusted premiums that approximate costs for retirees separately from those for active employees. The use of age adjusted premiums results in the inclusion of an implicit rate subsidy of the benefit costs to retirees by the District.

Currently, there are 342 active participants and 6 retirees with 3 spouses who are participating in the Plan. Because the District does not use a trust fund to administer the financing of other postemployment benefits, no separate financial statements are required.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost, the percentage of annual OPEB costs contributed, and the net OPEB obligation for the year ended June 30, 2009, were as follows:

Annual Required Contribution	\$ 86,438
Interest on Net OPEB Obligation	-
Adjustment to Annual Required Contribution	-
Annual OPEB Cost	<u>86,438</u>
Contributions Made	<u>(32,166)</u>
Change in Net OPEB Obligation	<u>54,272</u>
Net OPEB Obligation - Beginning of Year	-
Net OPEB Obligation - End of Year	<u><u>\$ 54,272</u></u>
Percentage Contributed	37.21%

Funded Status

As of July 1, 2008, the most recent actuarial valuation date for the period July 1, 2008 through June 30, 2009, the District's unfunded actuarial accrued liability (UAAL) was \$746,980. The annual payroll for active employees covered by the Plan in the actuarial valuation for the 2008-2009 fiscal year was \$12,294,791 for a ratio of the UAAL to covered payroll of 6.1% percent.

Actuarial valuations for an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to continuous revision as actual results are compared to past expectations and new estimates about the future are formulated. Although the valuation results are based on values which the District's actuarial consultant believes are reasonable assumptions, the valuation results reflect a long-term perspective and, as such, are merely an estimate of what future costs may actually be. Deviations in several factors, such as future interest rates, medical cost inflation, Medicare coverage, and changes in marital status, could result in actual costs being less or greater than estimated.

Funding Policy

The contribution requirements of the covered retirees are established and may be amended by the School Board. The District has retained the right to unilaterally modify its payments toward retiree health care benefits. There is no direct District subsidy for retiree health insurance coverage. The District funds the other post employment benefits on a pay-as-you-go basis.

The schedule of funding progress presented as required supplementary information following the notes to the financial statements, will present multiyear trend information. Because fiscal year 2009 was the year of implementation, only one year is presented, but future years will include required trend data.

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)
JUNE 30, 2009

(11) Other Post Employment Benefits (OPEB) Plan (Concluded)

Actuarial Methods and Assumptions

The actuarial methods and assumptions used are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The projected unit credit actuarial cost method was used in the July 1, 2008 valuation. The actuarial assumptions included a 4.5 percent investment rate of return. The initial healthcare cost trend rate was 10 percent reduced by 1 percent each year to an ultimate rate of 5 percent. Both the rate of return and the healthcare cost trend rate include an assumed inflation rate of 3 percent. The UAAL is being amortized as a level dollar amount on an open basis over a period of 30 years.

REQUIRED SUPPLEMENTARY INFORMATION

DOUGLAS SCHOOL DISTRICT 51-1

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual -	
	Original	Final	Budgetary Basis	Variance
Revenues:				
<i>1000 Revenue from Local Sources:</i>				
1110 Ad Valorem Taxes	\$ 1,425,000	\$ 1,425,000	\$ 1,917,984	\$ 492,984
1120 Prior Years' Ad Valorem Taxes	80,000	80,000	48,145	(31,855)
1140 Gross Receipts Taxes	75,000	75,000	101,404	26,404
1190 Penalties and Interest on Taxes	15,000	15,000	10,028	(4,972)
1310 Regular Day School Tuition	45,000	45,000	56,393	11,393
1500 Earnings on Investments and Deposits	260,000	260,000	6,131	(253,869)
<i>1700 Cocurricular Activities:</i>				
1710 Admissions	10,000	10,000	16,826	6,826
1740 Rentals	-	-	1,348	1,348
1790 Other Pupil Activity Income	-	-	4,460	4,460
<i>1900 Other Revenue from Local Sources:</i>				
1910 Rentals	-	-	829	829
1950 Refund of Prior Year's Expenditures	-	-	538	538
1980 Day Care Services	85,000	85,000	94,534	9,534
1990 Other	8,200	8,200	7,466	(734)
2110 County Apportionment	250,000	250,000	193,922	(56,078)
<i>3000 Revenue from State Sources:</i>				
3110 Unrestricted Grants-in-Aid	9,258,718	9,258,718	8,700,647	(558,071)
3320 Tuition - Regular	-	-	2,577	2,577
3900 Other State Revenue	15,000	15,000	15,350	350
<i>4000 Revenue from Federal Sources:</i>				
4120 Unrestricted Grants-in-Aid Received from Federal Government Through State	-	-	2,979	2,979
4140 Restricted Grants-in-Aid Received Directly from Federal Government	17,427	17,427	17,051	(376)
4150-4199 Restricted Grants-in-Aid Received from Federal Government Through State	678,455	678,455	1,222,995	544,540
4900 Other Federal Revenue	10,119	10,119	7,602	(2,517)
Total Revenues	12,232,919	12,232,919	12,429,209	196,290
Expenditures:				
<i>1100 Instruction - Regular Programs:</i>				
1110 Elementary	4,878,080	4,878,080	4,449,760	428,320
1120 Middle/Junior High	2,686,427	2,686,427	2,565,746	120,681
1130 High School	2,777,367	2,777,367	2,638,511	138,856
1140 Preschool Services	147,476	147,476	142,953	4,523
1190 Other Regular Programs	17,427	17,427	17,017	410
<i>1200 Instruction - Special Programs:</i>				
1210 Gifted and Talented	58,555	58,555	53,192	5,363
1250 Culturally Different	46,035	46,035	45,228	807
1270 Educationally Deprived	406,932	406,932	361,764	45,168
1290 Other Special Programs	22,785	22,785	19,501	3,284

DOUGLAS SCHOOL DISTRICT 51-1

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

	Budgeted Amounts		Actual - Budgetary Basis	Variance
	Original	Final		
<i>2100 Support Services - Pupils:</i>				
2110 Attendance and Social Work	54,156	54,156	49,633	4,523
2120 Guidance	470,135	470,135	449,089	21,046
2130 Health	8,500	8,500	5,109	3,391
<i>2200 Support Services - Instructional Staff:</i>				
2210 Improvement of Instruction	282,755	282,755	265,199	17,556
2220 Educational Media	776,958	801,882	794,324	7,558
<i>2300 Support Services - General:</i>				
2310 Board of Education	120,091	120,091	82,848	37,243
2320 Executive Administration	306,490	306,991	302,519	4,472
<i>2400 Support Services - School:</i>				
2410 Office of the Principal	858,246	858,246	815,473	42,773
<i>2500 Support Services - Business:</i>				
2520 Fiscal Services	254,717	254,717	251,604	3,113
2540 Operation and Maintenance of Plant	2,142,662	2,155,244	2,073,778	81,466
2550 Pupil Transportation	675,660	676,710	568,406	108,304
2570 Internal Services	65,887	65,887	54,872	11,015
<i>2600 Support Services - Central:</i>				
2630 Information	15,000	15,000	14,419	581
2640 Staff	83,839	83,839	75,910	7,929
2660 Data Processing	15,000	15,000	6,780	8,220
<i>3000 Community Services:</i>				
3400 Public Library	5,302	5,302	5,288	14
3500 Custody and Care of Children	151,203	151,203	141,774	9,429
3900 Other	4,300	4,300	4,300	-
<i>4000 Nonprogrammed Charges:</i>				
4500 Early Retirement	185,237	185,237	122,678	62,559
<i>6000 Cocurricular Activities:</i>				
6100 Male Activities	104,486	104,486	88,317	16,169
6200 Female Activities	62,220	62,220	54,664	7,556
6900 Combined Activities	475,993	479,986	436,157	43,829
7000 Contingencies	171,257	104,014	-	104,014
Total Expenditures	18,331,178	18,306,985	16,956,813	1,350,172
Excess of Revenue Under Expenditures	(6,098,259)	(6,074,066)	(4,527,604)	1,546,462
Other Financing Sources:				
5110 Transfers In	6,091,282	6,091,282	4,883,446	(1,207,836)
8110 Transfers Out	-	-	-	-
Total Other Financing Sources	6,091,282	6,091,282	4,883,446	(1,207,836)
Net Change in Fund Balances	(6,977)	17,216	355,842	338,626
Fund Balance -- Beginning	2,078,507	2,078,507	2,078,507	-
Fund Balance -- Ending	\$ 2,071,530	\$ 2,095,723	\$ 2,434,349	\$ 338,626

The accompanying supplementary notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
CAPITAL OUTLAY FUND
FOR THE YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual -	
	Original	Final	Budgetary Basis	Variance
Revenues:				
<i>1000 Revenue from Local Sources:</i>				
1110 Ad Valorem Taxes	\$ 630,000	\$ 630,000	\$ 940,971	\$ 310,971
1120 Prior Years' Ad Valorem Taxes	35,000	35,000	19,407	(15,593)
1190 Penalties and Interest on Taxes	10,000	10,000	3,991	(6,009)
1500 Earnings on Investments and Deposits	-	-	847	847
3900 Other State Revenue	-	-	2,430	2,430
<i>4000 Revenue from Federal Sources:</i>				
4110 Unrestricted Grants-in-Aid Received				
Directly from Federal Government	250,000	250,000	-	(250,000)
4140 Restricted Grants-in-Aid Received				
Directly from Federal Government	-	-	281,820	281,820
4900 Other Federal Revenue	-	-	239,902	239,902
Total Revenues	925,000	925,000	1,489,368	564,368
Expenditures:				
<i>1100 Instruction - Regular Programs:</i>				
1110 Elementary	556,530	556,530	375,745	180,785
1120 Middle/Junior High	990,942	1,022,675	1,022,675	-
1130 High School	555,344	555,344	486,695	68,649
<i>1200 Special Programs</i>				
1220 Programs for Special Education	7,940	7,940	7,737	203
<i>2200 Support Services - Instructional Staff:</i>				
2220 Educational Media	138,309	138,309	115,719	22,590
<i>2500 Support Services - Business:</i>				
2520 Fiscal Services	11,200	12,729	-	12,729
2530 Facilities Acquisition and Construction	115,700	379,078	342,893	36,185
2540 Operation and Maintenance of Plant	84,540	84,540	84,113	427
2550 Pupil Transportation	293,990	305,344	305,344	-
<i>3000 Community Services:</i>				
3400 Public Library	800	800	795	5
<i>6000 Co-curricular Activities:</i>				
6900 Combined Activities	62,036	62,036	48,119	13,917
Total Expenditures	2,817,331	3,125,325	2,789,835	335,490
Excess of Revenue Under Expenditures	(1,892,331)	(2,200,325)	(1,300,467)	899,858
Other Financing Sources (Uses):				
5110 Transfers In	1,892,331	1,892,331	1,015,000	(877,331)
5130 Sale of Surplus Property	-	-	1,019	1,019
8110 Transfers Out	-	-	(1,530)	(1,530)
Total Other Financing Sources	1,892,331	1,892,331	1,014,489	(877,842)
Net Change in Fund Balances	-	(307,994)	(285,978)	22,016
Fund Balance -- Beginning	1,337,674	1,337,674	1,337,674	-
Fund Balance -- Ending	\$ 1,337,674	\$ 1,029,680	\$ 1,051,696	\$ 22,016

The accompanying supplementary notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
SPECIAL EDUCATION FUND
FOR THE YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual -	
	Original	Final	Budgetary Basis	Variance
Revenues:				
<i>1000 Revenue from Local Sources:</i>				
1110 Ad Valorem Taxes	\$ 285,000	\$ 285,000	\$ 453,420	\$ 168,420
1120 Prior Years' Ad Valorem Taxes	25,000	25,000	9,233	(15,767)
1190 Penalties and Interest on Taxes	5,000	5,000	1,928	(3,072)
1500 Earnings on Investments and Deposits	-	-	370	370
<i>3000 Revenue from State Sources:</i>				
3120 Restricted Grants-in-Aid	1,300,000	1,300,000	1,325,233	25,233
<i>4000 Revenue from Federal Sources:</i>				
4140 Restricted Grants-in-Aid Received				
Directly from Federal Government	225,000	225,000	128,651	(96,349)
4150-4199 Restricted Grants-in-Aid Received				
from Federal Government Through State	537,500	537,500	517,038	(20,462)
Total Revenues	2,377,500	2,377,500	2,435,873	58,373
Expenditures:				
<i>1200 Instruction - Special Programs:</i>				
1220 Programs for Special Education	2,097,860	2,135,093	2,056,367	78,726
<i>2100 Support Services - Pupils:</i>				
2110 Attendance and Social Work	48,000	48,660	48,660	-
2120 Guidance	60,931	60,931	56,500	4,431
2130 Health	157,942	157,942	154,445	3,497
2140 Psychological	65,000	65,000	65,000	-
2150 Speech Pathology	449,592	449,592	272,323	177,269
2170 Student Therapy Services	103,000	103,000	91,375	11,625
<i>2700 Support Services - Special Education</i>				
2710 Administrative Costs	261,116	261,116	230,051	31,065
2730 Transportation Costs	169,814	216,510	212,720	3,790
2750 Other Special Education Costs	90,000	90,000	74,200	15,800
4500 Early Retirement	29,109	29,109	-	29,109
7000 Contingencies	27,636	-	-	-
Total Expenditures	3,560,000	3,616,953	3,261,641	355,312
Excess of Revenue Under Expenditures	(1,182,500)	(1,239,453)	(825,768)	413,685
Other Financing Sources (Uses):				
5110 Transfers In	1,182,500	1,182,500	885,000	(297,500)
8110 Transfers Out	-	-	(369)	(369)
Total Other Financing Sources	1,182,500	1,182,500	884,631	(297,869)
Net Change in Fund Balances	-	(56,953)	58,863	115,816
Fund Balance -- Beginning	198,901	198,901	198,901	-
Fund Balance -- Ending	\$ 198,901	\$ 141,948	\$ 257,764	\$ 115,816

The accompanying supplementary notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS

IMPACT AID FUND

FOR THE YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual - Budgetary Basis	Variance
	Original	Final		
Revenues:				
1500 Earnings on Investments and Deposits	\$ -	\$ -	\$ 100,135	\$ 100,135
<i>4000 Revenue from Federal Sources:</i>				
4110 Unrestricted Grants-in-Aid Received				
Directly from Federal Government	6,900,000	6,900,000	5,051,719	(1,848,281)
Total Revenues	6,900,000	6,900,000	5,151,854	(1,748,146)
Other Financing Sources (Uses):				
8110 Transfers Out	(9,166,113)	(9,166,113)	(6,775,510)	2,390,603
Net Change in Fund Balances	(2,266,113)	(2,266,113)	(1,623,656)	642,457
Fund Balance -- Beginning	16,364,284	16,364,284	16,364,284	-
Fund Balance -- Ending	\$ 14,098,171	\$ 14,098,171	\$ 14,740,628	\$ 642,457

The accompanying supplementary notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT NO. 51-1

**SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS FOR RETIREE HEALTH
INSURANCE COVERAGE
FOR THE YEAR ENDED JUNE 30, 2009**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actual Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll	UAAL as a Percentage of Covered Payroll ((b - a) / c)
07/01/08	\$ -	\$ 746,980	\$ 746,980	\$ -	\$12,294,791	6.1%

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed
06/30/09	\$ 86,438	37.2%

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2009

1. Budgets and Budgetary Accounting

The District followed these procedures in establishing the budgetary data reflected in the financial statements:

- 1) Prior to the first regular board meeting in May of each year, the School Board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
- 2) The proposed budget is considered by the School Board at the first regular meeting held in the month of May each year.
- 3) The proposed budget is published for public review no later than July 15th each year.
- 4) Public hearings are held to solicit taxpayer input prior to the approval of the budget.
- 5) Before October 1st of each year, the School Board must approve the budget for the ensuing fiscal year for each fund, with the exception of Fiduciary Funds.
- 6) After adoption by the School Board, the operating budget is legally binding and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated in number 8.
- 7) A line item for contingencies may be included in the annual budget. Such a line item may not exceed five percent of the total District budget and may be transferred by resolution of the School Board to any other budget category, except for capital outlay, that is deemed insufficient during the year.
- 8) If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budget when moneys are available to increase legal spending authority.
- 9) Unexpended appropriations lapse at year-end unless encumbered by resolution of the School Board.
- 10) Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds.
- 11) The budgets for the General Fund and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP), except for the following:

The financial statements prepared in conformity with USGAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new bus would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, however in the Budgetary Required Supplementary Information Schedule, the purchase of a bus would be reported as an expenditure of the Support Services/Pupil Transportation function of government, along with all other current Pupil Transportation related expenditures.

SINGLE AUDIT SECTION

DOUGLAS SCHOOL DISTRICT NO. 51-1

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2009**

The District is confident that the financial statements are accurate and is willing to accept the risk associated with the auditors preparing the financial statements, therefore, Finding 07-1 will be repeated for the year ending June 30, 2009.

The District incorporated a policy for the completion of semi-annual certifications for the Special Education program as indicated in the corrective action plan for Finding 08-01.

DOUGLAS SCHOOL DISTRICT NO. 51-1

**SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE ACTION PLANS
JUNE 30, 2009**

A. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the financial statements of Douglas School District No. 51-1 (the District).
2. Two significant deficiencies were disclosed during the audit of the financial statements as reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. The conditions are not reported as a material weakness.
3. No instances of noncompliance material to the financial statements of the District were disclosed during the audit.
4. No significant deficiencies were disclosed during the audit of the major federal award programs as reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award program for the District expresses an unqualified opinion.
6. The programs tested as major programs are Impact Aid, CFDA #84.041; State Fiscal Stabilization Fund-Education State Grant, Recovery Act, CFDA #84.394
7. The threshold for distinguishing Type A and B programs was \$300,000.
8. The District was determined to be a low-risk auditee.

B. FINDING -- Financial Statement Audit

Significant Deficiencies -- Not Material Weaknesses in Internal Control

07-1 Finding: Preparation of Financial Statements

Condition: As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. SAS 112 requires auditors to communicate this situation to the School Board as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of the District's financial statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both for the District at the same time in connection with our audit. This is not unusual for us to do with organizations of the District's size. However, based on this new auditing standard, it is our responsibility to inform the School Board that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by the District's management. Also, it is the School Board's responsibility to make the ultimate decision to accept the degree of risk associated with this condition because of cost or other considerations.

Criteria: As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in the District's statements. We are satisfied that the appropriate steps have been taken to provide the District with the completed financial statements.

DOUGLAS SCHOOL DISTRICT NO. 51-1

**SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE ACTION PLANS (CONTINUED)
JUNE 30, 2009**

B. FINDING –Financial Statement Audit (Continued)

Significant Deficiencies -- Not Material Weaknesses in Internal Control (Continued)

07-1 Finding: Preparation of Financial Statements (Continued)

Recommendation: It is the responsibility of management and the School Board to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response/Corrective Action Plan: Both management and the School Board have been informed of this process and are confident that the information is accurate and are willing to accept this risk. The Business Manager is responsible for the corrective action plan for this finding.

09-01 Finding: Internal Control over Significant Accounts

Condition: During the course of our engagement, we proposed four audit adjustments. The adjustments included adjusting workers compensation payable, accounts payable, health self-insurance accrual and accumulated depreciation.

Criteria: These adjustments were not recorded through the District's existing internal controls, and therefore, resulted in misstatements of the District's financial statements.

Recommendation: We recommend that management record these adjustments, which are necessary to comply with accounting principles generally accepted in the United States of America. Additionally, we recommend that the District develop procedures to review account balances and record all necessary adjusting entries prior to audit fieldwork.

Response/Corrective Action Plan: The District will continue to work on having all adjustments made prior to the annual audit. The Business Manager is responsible for the corrective action plan for this finding.

C. FINDINGS AND QUESTIONED COSTS – Major Federal Award Program Audit

There were no findings in the current year.

DOUGLAS SCHOOL DISTRICT NO. 51-1

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

	CFDA Numbers	Amount
<i>U.S. Department of Agriculture:</i>		
Pass-Through the S.D. Department of Education:		
Non-Cash Assistance		
National School Lunch Program	10.555	\$ 30,092
Cash Assistance		
School Breakfast Program (Notes 2 and 5)	10.553	93,081
National School Lunch Program (Notes 2 and 5)	10.555	339,096
Total U.S. Department of Agriculture		462,269
<i>U.S. Department of Defense:</i>		
Direct Federal Funding:		
National Defense Authorization Act - Section 386	12.XXX	239,902
<i>U.S. Department of the Interior:</i>		
Pass-Through the S.D. Department of Education:		
Taylor Grazing (Note 1)	15.227	75
National Mineral Leasing (Note 1)	15.227	2,904
Total U.S. Department of the Interior		2,979
<i>U.S. Department of Education:</i>		
Direct Federal Funding:		
Impact Aid -- Maintenance and Operations (Note 3)	84.041	7,444,021
Pass-Through the S.D. Department of Education:		
Title I Programs -- Local Educational Agencies	84.010	362,443
Special Education -- State Grants (P.L. 94-142) (Note 6)	84.027	491,069
Vocational Education -- Basic Grants to States	84.048	19,501
Title VII Indian Education Grant	84.060	17,051
Special Education -- Preschool Grants (P.L. 99-457) (Note 6)	84.173	25,969
Safe and Drug-Free Schools and Communities -- State Grants (Title IV)	84.186A	13,015
Title V Part A Innovative Programs	84.298A	1,858
Enhancing Education Through Technology	84.318X	5,218
Improving Teacher Quality State Grants	84.367A	221,212
ARRA - State Fiscal Stabilization Fund-Education State Grant (Note 3)	84.394	599,088
Total U.S. Department of Education		9,200,445
<i>U.S. General Services Administration:</i>		
Pass-Through the S.D. Federal Property Agency		
Donation of Surplus Personal Property	39.003	3,015
Total		\$ 9,908,610

DOUGLAS SCHOOL DISTRICT NO. 51-1

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

- Note 1: Federal reimbursements are not based on specific expenditures; therefore, the amounts reported here represent cash received rather than federal expenditures.
- Note 2: These amounts reflect cash received. Federal reimbursements are based on approved rates for services provided rather than reimbursement for specific expenditures.
- Note 3: This represents a major federal award program.
- Note 4: Basis of Presentation:
The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting.
- Note 5: These are a part of the Child Nutrition Cluster.
- Note 6: These are a part of the Special Education Cluster.



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

School Board
Douglas School District No. 51-1
Meade and Pennington Counties, South Dakota

We have audited the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **DOUGLAS SCHOOL DISTRICT NO. 51-1** (the District), Meade and Pennington Counties, South Dakota as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 11, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plans as Part B, Findings #07-1 and #09-01 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above are not material weaknesses.

School Board
Douglas School District No. 51-1
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plans. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the South Dakota Legislature and the School Board and management of the District, and is not intended to be, and should not be, used by anyone other than those specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



KETEL THORSTENSON, LLP
Certified Public Accountants

March 11, 2010



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

School Board
Douglas School District No. 51-1
Meade and Pennington Counties, South Dakota

Compliance

We have audited the compliance of **DOUGLAS SCHOOL DISTRICT NO. 51-1** (the District), Meade and Pennington Counties, South Dakota, with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to its major federal programs for the year ended June 30, 2009. The District's major federal programs are identified in the summary of audit results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

School Board
Douglas School District No. 51-1
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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of the South Dakota Legislature and the School Board and management of the District, and is not intended to be, and should not be, used by anyone other than those specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Ketel Thorstenson, LLP". The signature is fluid and cursive, with the letters "K", "T", and "P" being particularly prominent.

KETEL THORSTENSON, LLP
Certified Public Accountants

March 11, 2010